

AE 503

INTRODUCTION

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ECONOMICS OF PUBLIC POLICY ANALYSIS

■ Much of economics concerned with public policy

➤ Macroeconomics ➡ fiscal/monetary policy

➤ Microeconomics ➡ policies aimed at *market failures*

➤ monopolies	⇒ anti-trust laws
➤ externalities	⇒ pollution laws
➤ public goods	⇒ government supply
➤ information	⇒ food labeling laws

■ Focus of course will be on how economics can be used to analyze public policy towards market failures

- To understand market failures and policies to deal with them, need a *benchmark* by which to judge current market performance

- what is *optimal* market performance?
- what constitutes an *improvement* in market performance?

- This is known as *welfare economics*, which is made up of three areas:

- defining economic efficiency
- evaluating whether markets result in economic efficiency
- analyzing conditions under which public policies can improve efficiency, and, hence, social welfare